WERNER FINANCIAL

CUSTOMIZED INVESTMENT SOLUTIONS

QUALIFIED VS. NON-QUALIFIED ACCOUNTS

What are Qualified Accounts?

A qualified account is a type of retirement investment account that offers specific tax advantages to encourage retirement savings. In a qualified account, such as a traditional 401(k), contributions and earnings grow tax-deferred until the individual decides to make a withdrawal in retirement, at which point the funds taken out become subject to income taxes. Examples of qualified accounts include traditional 401(k)s, IRAs (Individual Retirement Accounts), 403(b)s, and pension plans.

In addition to Traditional qualified accounts, there is another type of retirement savings account that allows for investors to pay taxes "before" funding the accounts. This post tax funding strategy is for what is called Roth contributions, which can be funded via Roth IRA's as well as Roth 401(k)s. Since Roth account contributions are made with after-tax dollars, this allows for contributions as well as interest and growth generated to come out nontaxed in retirement when withdraws are made. Roth accounts provide individuals with an alternative option, allowing them to pay taxes upfront and potentially enjoy tax-free withdrawals in retirement.

These qualified and Roth accounts play a crucial role in retirement planning, offering individuals various options to save for their future while considering different tax implications.

What are Non-Qualified Accounts?

A non-qualified account, in contrast to qualified accounts, is a financial account in which contributions are subject to taxation before being added to the account. In other words, the funds allocated to a non-qualified account are post-taxed, and any withdrawal from a NQ account is only taxed if there is a gain generated on the dollars invested.

Nonqualified accounts are funded with money in which taxes have already been paid. Because the contributions are made with after-tax dollars, this allows for any future withdrawal of dollars you invested to be accessible without tax. Taxes are paid on any gains that generated via investment choices within a non-qualified account. Dividends that are generated are taxable as well. To understand taxable differences such as long term/short term capital gains, please refer to our additional PDF explaining the difference in these taxes.

Unlike qualified accounts, non-qualified accounts do not have strict eligibility criteria or contribution limits. They offer flexibility and liquidity in terms of withdrawal options without penalties, although the earnings or interest generated may still be subject to taxation.

See the table below for side-by-side differences:

Qualified Accounts	Non-Qualified Accounts
Contributions are often tax-deductible, and earnings grow tax-deferred	Contributions are made with after-tax dollars and earnings may be subject to capital gains tax
Subjected to specific eligibility requirements and contribution limits	No strict eligibility criteria or contribution limits
Penalties may apply for early withdrawals and required minimum distributions (RMD's) may be mandatory after a certain age	Flexible withdrawal options without penalties, but earnings may be subject to taxation

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